

*Revenue Sharing and Property Tax Reform*

THE LIST of prominent endorsers of the differential taxation of land and buildings—the Graded Tax—lengthens with each passing month. See, for instance articles in *The New Republic* of January 27, 1973 and *Fortune* of February, 1973.

This tax proposal would increase the tax rate on land values and decrease the tax rate on improvement values. The basic rationale is that by reducing the tax on improvements, we make them cheaper to build and maintain, and by raising the tax rate on land we force its owner to use it more efficiently—a carrot-and-stick approach, so to speak.

Although many experts like the Graded Tax, it has so far been difficult to induce particular localities to make the tax shift. Tax reform has always been difficult to achieve. But now the new federal revenue-sharing plan could provide a strong inducement for localities to adopt it.

At the present time, each locality's share of the total federal funds available for revenue-sharing depends on its population, as adjusted by its degree of need (measured by its income per capita) and its tax load (the heavier the load, the greater the revenue share). If an additional consideration were its percentage of land value taxed—*the greater the percentage, the greater the revenue share for the locality*—then all localities would find it financially profitable to switch to the Graded Tax, and some might actually do so.

Specifically, the following plan could be adopted: for every mill in the tax rate on *market* value of land above 20 mills, a bonus would be paid of 1 per cent on the locality's allotment. But no bonus could be larger than 100 per cent. For example, if a city's present tax rate on market-assessed land value is 22 mills, then the city gets a 2 per cent bonus; if it would otherwise get \$100,000 as its federal revenue share, then it would actually receive \$102,000 under this new proposal. If its land tax rate is 42 mills, then its bonus would be \$22,000 and so on.

Wouldn't this proposal provide a powerful incentive to localities to move in the direction advocated by many leading tax experts?

The idea, in fact, is so intriguing that our states could apply it to the revenue-sharing schemes they currently are operating in behalf of their own localities. With this slight adjustment, our federal and state governments could usher in a new day for our local property tax systems which stand so badly in need of reform.

STEVEN CORD

*Indiana University of Pennsylvania*  
*Indiana, Pa. 15701*